

Memorandum

TO: CITY COUNCIL

FROM: Mayor Chuck Reed

**SUBJECT: JUNE BUDGET MESSAGE
FOR FISCAL YEAR 2009-2010**

DATE: June 5, 2009

Approved: Chuck Reed

Date: 6/5/09

RECOMMENDATION

I recommend that the City Council and Redevelopment Agency Board:

1. Approve the direction outlined in this memorandum for purposes of adopting a final budget for Fiscal Year 2009-2010.
2. Adopt a resolution authorizing the City Manager and the Redevelopment Agency's Executive Director to negotiate and execute agreements for projects approved in the Mayor's Budget Message when amounts exceed the City Manager's or Executive Director's existing contract authority.
3. Authorize the changes proposed in the following Manager's Budget Addenda and incorporate them in the adopted budget, except in cases where the Addenda are superseded by the contents of this Budget Message.

MBA#	TITLE
2	HP Pavilion at San José Capital Budget Recommendations
4	2009-2010 Proposed Operating Budget, 2009-2010 Proposed Capital Budget and 2010-2014 Capital Improvement Program, and 2009-2010 Proposed Fees and Charges Replacement Pages
6	2009-2010 Proposed Fees and Charges - Mexican Heritage Plaza Fees
7	Recommendation on the Proposed 2010-2014 Capital Improvement Program
11	Elections Commission Complaint Filing Fee
12	PRNS Pricing and Revenue Policy
23	Public Safety Capital Staffing
24	Recommendations For Sharks Ice at San José Capital Budget for Fiscal Year 2009-2010
25	STAND Program
27	2009-2010 Proposed Fees and Charges Replacement Pages (Police)
29	Convention and Cultural Affairs Budget Update
32	Adult Crossing Guard Program Evaluation

34	Downtown Nightlife: Cost-Sharing
35	Adjustments to Public Works 2009-2010 Staffing Plan
40	American Recovery and Reinvestment Act of 2009 Update and Appropriation Actions
41	Arena Authority Funding
42	Fire Prevention Non-Development Fee Revisions
44	Cultural Funding Portfolio Allocations (Recommendation 1b)
45	Updated Information Regarding the 2009-2010 General Fund Property Tax Revenue Estimate
46	Recommended Amendments to the 2009-2010 Proposed Operating and Capital Budgets

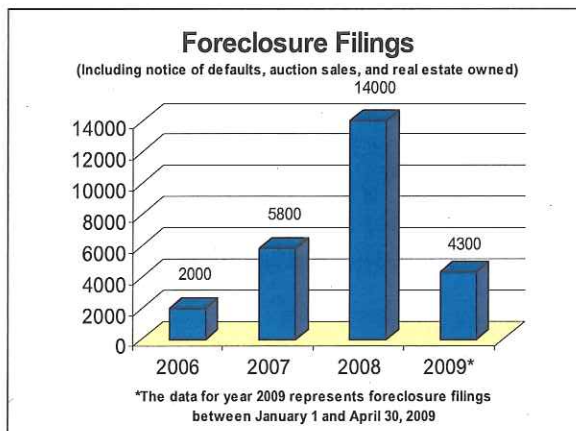
INTRODUCTION

The residents of San José elected the Mayor and City Council to tackle tough problems head-on. To do so, we must confront the realities of our current economic and financial crises. With eight straight years of shortfalls and our state and nation in the worst economic condition since the Great Depression, there are no easy answers or painless solutions to balancing this year's \$84.2 million General Fund budget gap. However, San José has the opportunity to get through this crisis and emerge from it more financially stable and operating more efficiently.

As I present my June Budget Message to the City Council, I do so with the goal of fixing our financial challenges while always remaining cognizant of the impacts that our decisions have on both our current and future residents and taxpayers.

Economic Outlook

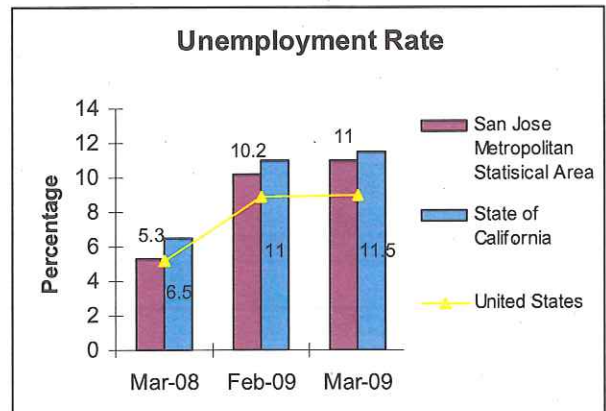
The financial backdrop for this year's budget is a dramatic recessionary spiral, evidenced by increasing job losses in the private and public sector, rising unemployment, steeply declining home prices, rising numbers of home foreclosures and growing commercial vacancy rates.



Real estate performance in Santa Clara County remains extremely weak. Since 2007, more than 19,827 homes in San José have gone into foreclosure. As of the end of February, nearly 4,000 homes were in some state of foreclosure. Local home values have also sharply declined. The median price for single family homes has dropped 39%, from \$670,000 in February 2008 to \$406,500 in February 2009. The commercial sector isn't faring any better. The vacancy rate for office space is currently 18% -- an increase of 37% over the past year.

Between March 2008 and March 2009, total employment in the region fell by 36,200 jobs. The San José metropolitan area unemployment rate has increased to a rate of 11.0%, more than double the 5.3% rate of a year ago.

The severity and longevity of the current economic downturn is projected to cause continued declines in many of the city's largest and most critical revenue sources.



Economically Sensitive Revenue Sources

Revenue Category	2007-2008 Actuals	2008-2009 Estimated	% Change	2009-2010 Proposed	% Change
Property Tax	203,718,290	208,166,000	2.2%	193,468,000	(7.1%)
Sales Tax	154,001,942	143,077,000	(7.1%)	135,795,000	(5.1%)
Transient Occupancy Tax	9,560,000	7,900,000	(17.4)%	6,553,000	(17.1%)

In the wake of the economic fallout from the collapse of the mortgage and finance industries, the debate nationally has turned to how quickly the country will experience an economic rebound. We must be fiscally prudent and prepare for the likelihood that the economic recovery may be long, with improvements made slowly and over time, rather than bouncing back robustly and quickly as we all hope. Ongoing concerns will influence the speed of an economic recovery, including how quickly housing prices stop falling and stabilize, the pace at which consumers start to resume spending, the impact of the American Recovery and Reinvestment Act stimulus funding on our local community, how soon employment begins to grow again, when the financial industry stabilizes and credit is made available again, and how rapidly consumer confidence grows. These unfortunate economic realities are reflected in the Five-Year Forecast released in February 2009. These realities are further compounded by potential pension plan increases as shown in the chart that follows.

2010-2014 General Fund Forecast Update (\$ in millions)						
	2009-2010	2010-2011	2011-2012 ¹	2012-2013 ¹	2013-2014 ¹	Total
Projected Base Shortfall (Feb 2009 Forecast) ²	(\$61.2)	(\$36.7)	(\$4.9)	\$6.5	\$10.1	(\$86.2)
Property Tax/Sales Tax/Other	(\$16.3)					(\$16.3)
2009-2010 One-Time Solutions		(\$2.9)				(\$2.9)
Potential Pension Plan Increase (Police & Fire/Federated)		(\$51.7)	(\$38.7)	(\$36.0)	(\$38.7)	(\$165.1)
Total Incremental Deficit	(\$77.5)	(\$91.3)	(\$43.6)	(\$29.5)	(\$28.6)	(\$270.5)
Total Cumulative Deficit	(\$77.5)	(\$168.8)	(\$212.4)	(\$241.9)	(\$270.5)	(\$270.5)

¹ Funding for cost-of-living salary increases not factored into the last three years of the Forecast.

² Does not include Development Fee Programs. Does not include City's share of General Fund annual required contribution for retiree health care benefits and committed additions previously agreed upon by City Council, such as addition of 25 officers annually through 2011-2012 and operating and maintenance funding for capital projects coming on line.

Other Challenges We Face

State of California

The most significant risk to the revenue forecast is the magnitude of the State of California's budget deficit. Many of the city's most critical revenue sources – Sales Taxes, Gasoline Taxes, Vehicle License Fees, and others – pass through the State coffers before being disbursed to the city. At various times in history, the State has either held these revenues, keeping interest income for itself, or taken a portion of revenues to balance its own deficit.

With the failure of the State Fiscal Propositions on May 19, the State's budget shortfall escalated to over \$21 billion. Closing this gap likely will result in the State raiding city tax revenues, from property taxes to gasoline taxes. Last year, the State attempted to take \$13 million in Redevelopment Agency funds from San José, funds needed for projects to revitalize neighborhoods throughout the city and to stimulate our local economy. Litigation by the California Redevelopment Association stopped that raid but the case is on appeal.

The threat that the State poses to our revenues is real. Should the State raid property tax revenues, we could easily lose as much as \$20 million in funds that are needed to pay for vital city services, adding to our projected deficit in 2009-2010. Under Proposition 1A (passed in 2004), the provisions that protect local property tax revenues can be suspended if the Governor issues a proclamation of "severe fiscal hardship;" if the Legislature enacts an urgency statute suspending Proposition 1A property tax protection; and if the Legislature enacts a law providing for full repayment of the "borrowed funds" plus interest within three years. Even though the State Constitution may require repayment of these funds, the immediate effect will negatively impact our revenues.

Together with the mayors of other big cities throughout California, I am fighting to stop the raid of our local funds. California cannot balance years of budget failure on the back of local government.

Given the uncertainty and the length of time that the State legislature historically takes to reach agreement on the budget, I recommend that the City Council adopt a budget that closes the projected \$84.2 million General Fund budget gap and that any State raid be addressed by borrowing from either internal funds or from a pool that the Governor has proposed creating for this purpose, or by service reductions/eliminations or use of reserves, as appropriate. In the fall, the City Council will review the impacts of the State's actions and take corrective action if needed.

Pension Funds

The drastic drop in pension values, as reflected in the chart below, have resulted in early projections that we will need to dramatically increase pension contributions in 2010-2011, which will significantly boost the projected shortfall for next year.

	Police & Fire Department Retirement Plan		Federated City Employees' Retirement System	
	Market Value	Net Rate of Return	Market Value	Net Rate of Return
June 30, 2008	\$2.561 Billion	-27.3%	\$1.774 Billion	-25.6%
March 31, 2009	\$1.867 Billion		\$1.322 Billion	
Total Decline in Market Value	\$694 Million		\$452 Million	
Grand Total	\$1.146 Billion DECLINE			

The City's pension plans are established by the City Charter. The City makes payments to the two pension funds, and those payments are adjusted based on the performance of each pension fund to ensure that we are able to meet our obligations to our employees and retirees.

Sharing Responsibility

This year we face simple yet daunting choices as we resolve our \$84.2 million deficit. In previous years, we solved our deficits through service reductions. City government is a service industry. When we cut a position, we cut services to our community. Since 2001-2002, the city has eliminated 609 total positions. We need to realize that deeper cuts in the city workforce cannot be achieved without long-term harm to service levels and our community.

I believe our situation requires a new approach. I propose that we join together to get through this budget crisis by sharing the burden among everyone -- our community, our employees, and the City Council -- and to do so with the intertwined goals of minimizing layoffs and protecting vital city services.

Tom Brim, President of the Building Inspectors Union, recently had a statement that summarizes how we are going to get through this crisis. He said, *"If you care about the people you work with, you've got to step up to the plate."* This applies not just to city employees, but to all of us.

The City Manager's proposed budget includes:

- Closing Fire Stations 30 and 33
- Eliminating the Park Ranger Program
- Closing Six Community Centers
- Reducing Library Hours
- Eliminating the Horse Mounted Unit
- Laying off approximately 150 Individuals

Service reductions and layoffs of this magnitude and the service cuts they represent are painful. But if we reinstate many of these programs this leaves \$15 million in funding we need to resolve.

I am proposing a partnership between our employees, the community, and the City Council: \$5 million from additional revenues, \$6 million from eliminating lower priority services, and \$4 million from a partnership with our employees.

Partnership with Our Employees

There are many areas in which the city and our employees can partner on together. Consider if we were able to reach agreements on a true wage freeze, we could save \$11.7 million in the General Fund:

2009-2010 General Fund		
Bargaining Unit	Contracted Pay Increases	Step Increases
Police Officers Association	2,975,857	2,628,854
Fire - IAFF	-	1,510,473
Municipal Employees' Federation	\$1,647,640	\$1,899,076
Operating Engineers	-	\$402,883
Confidential Employees Organization	\$128,984	\$157,264
CAMP	\$354,068	-
Total	\$11,705,099	

Participation of all groups is imperative, particularly public safety. The Police and Fire Departments account for more than 50% of the City's General Fund Budget.

This approach is not going to be easy. Getting through these challenges will require collaboration, focus, persistence, and innovation. Imagine what will happen if we do nothing. Vital services and more than 150 jobs are at stake. We must think about the big picture and work to protect city services when families need them most. If we all share the burden, I know we will get through this and lay a path to overcoming our financial challenges, while respecting the interests of our taxpayers and our responsibility to future generations. I would like to thank the

bargaining units and unrepresented management that have stepped up to the plate so far. With further support from other unions there are additional services we can buy back as detailed in Attachment I.

New Revenues and Lower Priority Service Reductions

The theme of this Budget Message is sharing the pain between our employees, community and our City Council. So, I am also recommending that the responsibility for additions in this budget be shared between revenues, elimination of lower priority services, and partnership with our employees. Recommendations for increased revenues and elimination of lower priority services are included throughout this document and summarized in Attachment I.

BACKGROUND

Community Budget Process – Establishing Priorities

In 2007, the City Council unanimously approved several items related to the Reed Reforms which gave direction to “Change to a Community Based Budgeting Process.” These Reed Reforms that City Council unanimously approved are:

- Start the budget process with a survey of the public in early January
- Hold a Conference on Priorities with the neighborhood associations in late January
- Have Council hearings in February to discuss priorities
- Report the results in the Mayor’s March Budget Message

My goal has been to hear from neighborhoods and community members early in the budget process and to ensure that the City Council addresses the budget deficit and preserves essential services for our residents in a way that reflects the priorities set forth by the community and the City Council.

My Budget Message and the budget therefore serve as a guide and align with the City Council’s five three-year goals developed during our initial priority setting session. These are (not in priority order):

- Regain our status as the safest big city in America
- Eliminate the structural budget deficit
- Reduce deferred infrastructure backlog and develop a strategy to improve the infrastructure
- Increase economic vitality
- Provide full funding for parks, pools, community centers and libraries, including maintenance, operation and development.

2009 Neighborhood Priority Setting Session

The Neighborhood Associations Budget Priority Setting Session held in January gave participants an opportunity to play "City Manager for a Day." Participants reviewed proposals that either raised revenues or cut costs in an effort to balance a budget shortfall. The 15 options most often selected were:

1. Reduce growth in personnel costs
2. Require downtown nightclub venues to pay 50% of police overtime costs
3. Achieve service delivery efficiencies
4. Redirect subsidy for Convention and Visitors Bureau marketing
5. Increase parking/traffic citation fines
6. Lease city assets
7. Increase library material fines
8. Charge full cost to event planners for Police to coordinate and staff events
9. Reduce general government services
10. Postpone opening public facilities scheduled for 2009-2010
11. Eliminate Police Officer response to non-injury accidents
12. Implement a ¼ cent sales tax
13. Implement a plastic bag fee
14. Establish a security alarm fee for commercial and residential alarms
15. Expand parking compliance and meter zones in the Arena/Diridon Area

2009 Community Budget Prioritization Survey

Many of the trends from the Neighborhood Associations Budget Priority Setting Session mirrored the Community Budget Prioritization Survey of 1,000 residents. We also know from last year's survey that two-thirds of our residents prefer changing the way the city provides services to reduce costs over raising taxes or reducing services. A high percentage of survey respondents also said that if services had to be cut, they preferred the following budget reduction measures:

1. Reducing the size of pay increases for city employees (79%)
2. Reducing funds for recruiting, training and recognizing city employees (73%)
3. Reducing branch library hours by one day per week (70%)
4. Closing some city pools and aquatics centers (67%)
5. Reducing maintenance of city buildings (67%)
6. Reducing the size of benefit packages provided by city employees (66%)

2009 District Budget Meetings

Since March, the City Councilmembers, the City Manager's Office, and I have jointly coordinated and hosted a series of community budget information meetings to provide residents with an opportunity to learn more about the budget and how general fund dollars are spent, as well as encourage community conversations around the City Manager's Proposed 2009-2010 Budget.

The Community Budget meetings were held in each of the Councilmember's districts. Over the course of 11 meetings held at various community locations, more than 300 people turned out to speak directly to and share their thoughts with their Councilmembers and city officials.

Each meeting was opened by the District's Councilmember along with comments from the Mayor on the overall economic environment. The City Manager's Office continued with a presentation explaining the city's budget process and highlighting some of the more significant General Fund proposals.

After the budget presentation, residents engaged in a question-and-answer segment. Residents recommended alternative solutions and shared concerns about particular budget proposals with their Councilmember. Throughout the public comment period, residents made the case for limiting service reductions in areas such as: Public Safety, Libraries, and Senior and Community Centers. Attachment II provides a detailed summary of the District Budget Meetings.

INVESTMENT AND REDUCTION STRATEGIES

1. Protecting and Investing in Our Neighborhoods

A great city is a safe city. San José strives to be a great city and we must continue to ensure that our residents feel safe in their homes and in their neighborhoods. After hearing from hundreds of residents from every Council District through the Community Budgeting Process, the Message is clear: Public Safety is our Number 1 priority.

Public safety remains my top priority, the top priority of the City Council, and a top priority for the majority of San José residents. I have heard this in the Community Budget Meetings, our Neighborhood Priority Setting Session, and our city-wide Survey:

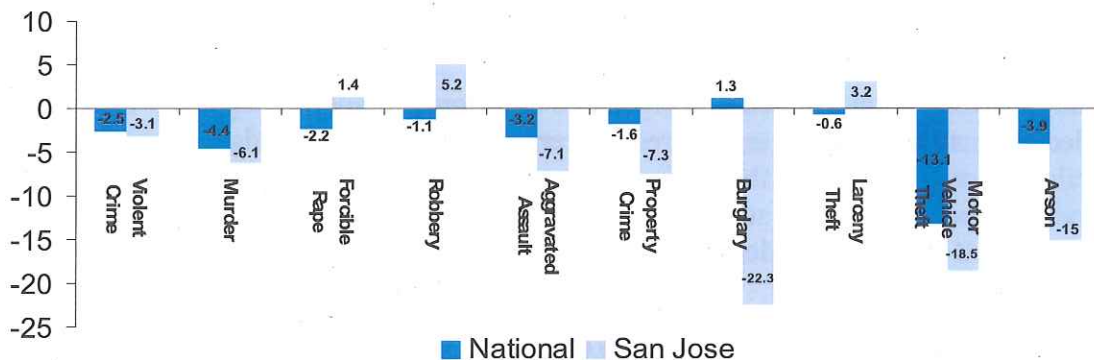
- 69% of residents were opposed to reducing police staffing dedicated to property crimes
- 50% opposed to reducing the number of officers doing traffic enforcement
- 59% found it acceptable to transition more responsibilities from police officers to civilian staffing in the Police Department

We are facing a dire economic situation, but we need to remain committed to keeping our residents safe. Doing so requires that our community shares the responsibility for public safety and participates proactively in programs the city offers such as Neighborhood Watch and San José Prepared. As a city, we must take a holistic approach towards public safety. Libraries and community centers provide safe places and vital programs for our youth and seniors. Park Rangers play an integral role in keeping our parks accessible and safe for all residents. All of these programs help create a high quality of life in our neighborhoods and help to prevent crime.

Our public safety departments run very lean, but they do a great job. We will not lay off police officers or firefighters. We will continue to provide them with the resources necessary to keep us one of the safest big cities. This requires the city to remain diligent in preserving support staff for our sworn officers that allow our emergency responders to be available to our residents.

As the chart below shows, when one compares 2007 and 2008 crime data from San José to the national average, San José's crime rate dropped at a higher than average rate with decreases in violent crime, murder, aggravated assault, property crimes, burglary, motor vehicle theft, and arson.

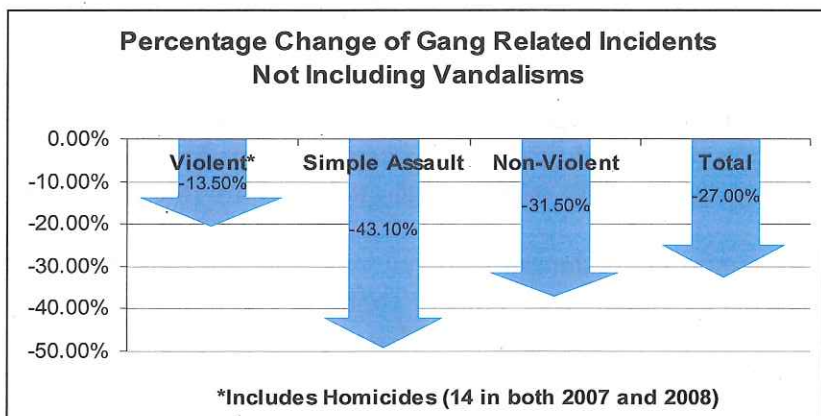
National and San Jose Crime Comparison



Our public safety departments know what it takes to keep our city safe, but we know there is still room for efficiencies and cost effectiveness. The City Auditor will return in the fall of 2009 with an audit to assess the efficiency and effectiveness of current deployment of sworn versus non-sworn Police Department employees.

We must also prioritize pursuing grants and technological advances that will streamline procedures and reporting for our public safety departments. As the result of funding through the American Recovery and Reinvestment Act of 2009, we will add to the funding necessary to acquire an Automatic Field Reporting and Records Management System (AFR/RMS). The AFR/RMS system promises to improve the Police Department's capacity for analyzing data and solving crimes. This will enhance their ability to investigate and deploy resources more effectively. This will directly impact the public in areas such as graffiti, where processing backlogs can be up to six weeks, by expediting the number of solved cases and improving the department's ability to proactively prevent escalation of crime in our neighborhoods.

To make neighborhoods safe, it takes a great deal of collaboration from our sworn officers, support staff, community based organizations, and the diligence of our residents. One of our most vital tools in keeping our city safe is the Mayor's Gang Prevention Task Force. The Task Force serves as a national model and through its collaboration we successfully prevent crime and help our at-risk youth find alternatives to gang involvement.



The efforts of the Task Force have resulted in a 27% decrease in gang violence from 2007 to 2008, which is why we must maintain funding for the Task Force this year.

This summer, through the Safe Summer Initiative, the Task Force will serve 7,450 youth with \$620,000 in funding from both the District Attorney's Office and the City of San José. This will allow us to keep these kids off the streets and engaged in their community. Last year, the inaugural Safe Summer Initiative resulted in a 31% decrease in overall gang crimes from the summer of 2007 to the summer of 2008 which is why I have recommended increasing funding from last year.

We must continue to work diligently to prevent crime, and although we do not have enough money to do everything we want, we need to continue spending on public safety. I recommend the following be incorporated into the Fiscal Year 2009-2010 budget to keep our city safe:

- a. **Enhancing Our Police Department:** In times of shared sacrifice, we must re-examine our daily operations. We must have officers patrolling our neighborhoods, but we must also be cognizant of the budget constraints we face. Since my March Budget Message of 2008, I have requested utilizing retirees, maximizing the use of civilians, and identifying operational efficiencies to bolster the efforts of our Department while controlling our spending. In June of 2008, I set forward a goal of adding 100 new officers by 2012. To date, we have authorized 40 additional sworn officers since Fiscal Year 2006-2007.

This year's budget constraints put us in a unique predicament. The Proposed Operating Budget contains a proposal to eliminate nine vacant officer positions from patrol functions as of July 1, 2009. I direct the City Manager to reinstate the police patrol unit staffing and allocate \$1,097,788 in funding. Our budget situation does not allow us to do much more, but we still have the potential for funding 25 new officer positions through the COPS Hiring Recovery Program by the fall of 2009. These officers would not enter the academy in January of 2010.

In the interim it is critical that we take swift action to support our officers who are patrolling our neighborhoods and keeping our residents safe. I direct the City Auditor to prioritize the audit to assess the efficiency and effectiveness of current deployment of sworn versus non-sworn Police Department employees so that any resulting changes can be implemented at mid-year.

- b. **Fire Station 30:** Fire Station 30 was originally placed into service during construction of Station 1. The engine was maintained and now serves as a concentration resource, improving responses for large scale events. Engine 30 responded to 1,100 calls in its first due area in 2007-2008 and is a valuable public safety asset in the downtown area. I recommend funding of the Fire Station 30 Engine Company. (BD #37, \$2,176,805)
- c. **Fire Station 33:** Fire Station 33 opened in September 2007 through an agreement between the developer of Communications Hill, KB Homes, and the city. The primary reason this fire station was built on top of Communications Hill is due to its unique location. I recommend funding of the Fire Station 33 Engine Company. (BD's #11 & 30, \$1,718,000)

- d. **Satellite and Neighborhood Community Centers:** In many of our neighborhoods, community centers play vital roles in providing a safe haven for children, social opportunities for families, and warm meals and companionship for seniors. Six community centers, (Los Paseos, St. James, Northside, Capitol Park/Goss, Alma, and Hank Lopez,) are slated to close in January 2010. I recommend funding these centers for the entire fiscal year. This funding recommendation would allow us to keep these centers open long enough for the City Manager to engage in conversations with community based organizations to find alternate service providers. (BD #33, \$671,381)
- e. **Restoration of Services to Branch Libraries:** From Bond measures to library parcel taxes, San José residents have voted to support their branch libraries. In the 2008- 2009 Budget, we eliminated Sunday hours at six of the seven branches that had previously offered Sunday hours. To make any further reductions would adversely affect thousands of residents. I recommend that we restore services to our branch libraries as they provide an interactive place for people of all ages in our community to enjoy access to a variety of free resources. In bleak economic times, libraries see a significant increase in usage, which makes them an essential service for our residents. I recommend reinstating \$1,199,036 to restore 8 hours per week of branch library service to the Library Department with additional potential funding for the remaining 5 hours per week of branch library service to come from concessions with our bargaining group. (BD #35, \$1,199,036)
- f. **Police Traffic Enforcement Unit:** To ensure a high quality of life in our neighborhoods, we must make every effort to reduce traffic accidents and support neighborhood traffic calming efforts. I recommend that we reinstate the Traffic Enforcement Unit to maintain the current level of staffing which will continue improvements in vehicle and pedestrian safety. (BD's #27 & 38, \$790,810)
- g. **Police Horse Mounted Unit:** This unit provides unique and valuable crowd control during special events and large gatherings such as public protests, particularly in open areas, and impacts the effectiveness of patrol in large parks and in the downtown area. The Horse Mounted Unit has also played a role in the Mayor's Gang Prevention Task Force by creating an increased police presence in identified "hot spots." I recommend that we reinstate this unit, excluding the two vacant officer positions. The City Manager is directed to immediately enter into an agreement with the Friends of the Horse Mounted Unit to formalize their financial support of the unit who have agreed to fundraise to preserve this unit. Additional funds from the Friends of the Horse Mounted Unit could be realized at mid-year and assist with reaching full staffing. (BD #26, \$739,972)
- h. **Police Management Consolidation:** The City Manager's Proposed Operating Budget included a recommendation to streamline management functions in the Police Department to achieve savings in Fiscal Year 2010-2011. Given our budget constraints this fiscal year, the Department shall expedite this process and make the changes effective January 1, 2010 to realize a savings this fiscal year of \$125,000 and an ongoing savings of \$250,000.

- i. **Police Public Information Office (PIO) Consolidation:** The Police Public Information Office acts as liaison between the Department and the media. It includes two Public Information Officers and one Sergeant. The City Manager is directed to consolidate and streamline the Police Department Public Information Office. This would generate savings of \$154,509 to be used to fund additions in this Message through the elimination of one of the PIO positions.
- j. **Police Take-Home Vehicles:** In the Proposed Operating Budget, an ongoing savings of \$100,000 was identified by reducing the Police Department's number of personnel who are assigned take-home vehicles. I commend this effort and request that the City Manager identify an additional savings of \$100,000 from take-home vehicles.
- k. **PRNS Advertising for "Smoke Free Parks":** A common request from residents in attendance at the district community budget meetings was for the city to take a good look at what it should do, what it can do, and what it must do. While it is important for us to ensure that our parks are smoke free, I believe that this HNVF funding would be better allocated to the General Fund in order to preserve essential city services. I also believe that the city can make use of free media and the Mayor and Councilmembers' frequent constituent outreach efforts to promote smoke free parks. (MBA #9, \$50,000)
- l. **San José Municipal Rose Garden:** The Rose Garden is a historic landmark that has been recognized by the All-American Rose Selection as a Rose Test Garden, one of only 23 in the nation. Currently, it is maintained through a successful public/private partnership with the Friends of the San José Rose Garden. To fully utilize volunteer efforts in the garden, I recommend preserving the Maintenance Assistance PT and the Groundsworker dedicated to the Rose Garden. The historic fountain at the Rose Garden adds to its ability to generate revenue for the city, so I recommend that it remain operable. I direct the City Manager to bring forward a proposal for increased wedding and special event permit fees to the City Council to recover the costs of operating the fountain as part of the 2010-2011 budget process. (BD's #13, 14, & 15, \$126,907)
- m. **Park Rangers:** The Park Rangers program provides a broad range of services to all of the city's regional parks in addition to portions of the downtown area. Full-time Park Rangers are considered peace officers, as they have gone through rigorous training through the South Bay Regional Public Training Consortium. This training allows full-time Park Rangers to issue citations- including the ability to cite for infractions of park rules. This restoration also eliminates the need for 2.25 part-time Account Clerks. I direct the City Manager to bring forward alternate staffing models for the Park Ranger program as part of next year's budget process that reduce costs and utilize volunteers. I recommend reinstating approximately \$1,000,000 to PRNS with additional funding to come from concessions with the Operating Engineers Local Union 3 (OE3). (BD #25, \$1,429,783)
- n. **Dr. Martin Luther King, Jr. Library (MLK):** The MLK library serves as the main library for the City of San José. As a Council, we must reinstate the hours of operation at this vital information hub for our residents. (BD #20, \$186,392)

- o. **Downtown Nightlife Cost-Sharing:** As a result of changes to the Entertainment Zone Policing Model, there will be a savings of \$141,000 that was originally budgeted for Police Department overtime costs. A new Policing Model will require that trainings be conducted for both our Police Department and nightclub personnel to effectively institute the new model. I am recommending adoption of MBA #34 with \$10,000 from overtime costs being allocated to the City Manager's Office and the remaining \$131,000 in savings be appropriated back to the General Fund. I direct the City Manager to continue working with identified stakeholders and the City Attorney's Office to institute the fee as quickly as possible. If we are able to institute the cost-sharing fee by January 1, 2010 we can generate \$125,000 in revenues for the Police Department. (MBA #34, \$131,000)
- p. **Golf Courses:** City Council has inquired multiple times about the golf program. The City Manager is directed to develop a plan for the golf program that would eliminate General Fund support and allow the courses to be self sustaining. Funding currently exists in the General Services Department Asset Management Program for contractual services that can be used to support this effort.
- q. **Office of the Independent Police Auditor:** The Office of the Independent Police Auditor plays a critical role in the citizen review process. The office is currently understaffed while we are in the process of recruiting for a permanent Independent Police Auditor; this position may be vacant until the middle of the fiscal year. The City Manager is directed to allocate projected savings from the vacant Independent Police Auditor position to reinstate an Office Specialist for Fiscal Year 2009-2010 to ensure consistent service delivery levels during this interim period.
- r. **Emergency Medical Services Cost Recovery:** San José should follow the model of other municipalities in seeking to recover costs for services provided by the Fire Department in support of Emergency Medical Services providers. The City Manager should immediately explore opportunities to recover funding due to the city for providing these crucial support services, and reallocate any funds received back to the General Fund. (BD #4)
- s. **Distinctive Neighborhoods Program:** On Tuesday, June 2, 2009 the City Council unanimously approved the creation of a Distinctive Neighborhoods Program. The City of San José has few historic neighborhoods remaining, and they need to be preserved. Instituting this program would allow for:

 - Opportunities for neighborhoods to identify and apply for regulations to protect specific physical characteristics of their neighborhood
 - A more streamlined survey and designation process of historic San José neighborhoods
 - A discretionary planning process to review proposals to demolish older, potentially historic homes

I recommend an allocation of \$30,000 to allow this program to move forward. This amount would provide for the funding necessary for 0.2 FTE for a Planner to accomplish the code amendments for the demolition and conservation study area options. (BD #21, \$30,000)

- t. **Aborn Park Play Lot:** The addition of a play lot at Aborn Park supports the livability of the neighborhood. To provide the remaining funds needed to begin construction, I recommend using \$136,000 out of the District 8 C&C Ending Fund Balance. This play lot would bolster the park and the library that would be adjacent to the play lot. (BD #17, \$136,000)
- u. **Mayor's Gang Prevention Task Force Crime (MGPTF) and Gang Prevention Summit:** In November of 2008, the Task Force held their first summit and provided training to over 300 community leaders and residents. The summit proved to be a critical venue for the community to learn about the resources provided by the Task Force, and also to provide input on the new *Action, Collaboration, and Transformation (ACT) Strategic Work Plan* of the Task Force. I recommend allocating \$5,000 in one-time funding from the 2008-2009 Summit re-budget to PRNS for San José BEST to hold the summit again this year.
- v. **Gang Resource Card for the Police Department:** Through the leadership of the Police Department, the Mayor's Gang Prevention Task Force has identified the need for a Gang Resource Card to be provided to victims of gang violence. This resource card would closely resemble the one offered to victims of domestic violence that informs them of their rights and the community resources available to them. To pilot the usefulness of these cards, I recommend allocating \$1,000 from the 2008-2009 Summit re-budget to the Police Department.
- w. **Healthy Neighborhoods Venture Fund (HNVF):** The Healthy Neighborhoods Venture Fund funding pool maximizes services to the City of San José while being responsive to community needs. With \$6 million of funding, HNVP recipients leveraged \$26 million last year. This resulted in \$32 million in services to the City of San José. To ensure that this program remains responsive to emerging needs, I am recommending that the Healthy Neighborhoods Leadership Committee at its next meeting, consider alternative funding appropriations to the City Council. This is intended to allow for increased community input on the process, but is not intended to postpone final City Council approval which must occur by June 23, 2009 for grants to be appropriated in a timely manner.
- x. **Public Intoxication Task Force:** The Public Intoxication Task Force recommendations were approved by the City Council on June 2, 2009. Status reports on the implementation of the recommendations are scheduled to go to the Public Safety, Finance and Strategic Support Committee. The City Manager is directed to set aside \$100,000 to help implement the Public Intoxication recommendations.
- y. **Homework Centers:** I recommend that the City Council defer consideration of Level 1 Homework Center elimination to the 2010-2011 budget process. The 2009-2010 Proposed Budget contemplates elimination of the Homework Centers in 2010. It is

appropriate to have this discussion next year, after we have an accurate projection from the State regarding levels of funding from the tobacco settlement that San José can expect to receive.

- z. **Community Based Organizations:** Community based organizations play a critical role in providing services to residents. These organizations leverage city funds and raise significant private matching dollars to enhance the quality and quantity of services provided. To lessen the financial impact to these organizations at a time when private philanthropy is down and need is up, I recommend the proposed reduction be changed from 15.9% to 7.95%. (BD #20, \$209,759)
- aa. **Emergency Response Initiative:** The City Manager is directed to track and report back on the State of California's efforts to increase the emergency response initiative's funding to local governments to support local emergency response services. This funding could provide an opportunity to support Fire Department operation and emergency response capabilities such as the Support Paramedics Program. (BD #5)
- bb. **Police Department Crime Prevention:** A strategy to deal with the 2010-2011 Budget is the elimination of the Crime Prevention Program and to transition to an alternate crime prevention service delivery model. Prior to elimination of this program in next year's budget, the City Manager is directed to explore and report to the Public Safety, Finance and Strategic Support Committee on alternative service delivery models for City Council consideration.

2. Community and Economic Development Services

Our region is still considered to be the largest and most influential high tech center in the world, creating tremendous economic activity through technological innovation. A Milken Institute study released earlier this week ranks the San José – Sunnyvale – Santa Clara metro area as the preeminent high tech area in North America. The study concluded that regions that promote and sustain the high tech sector are best prepared to recover and generate broader stability and growth. We should continue our commitment to facilitating our economic development strategy and align our work program to the vision for economic excellence. Retaining and recruiting corporations and businesses in the high-tech, life sciences and clean-tech sector must continue to be our highest priority. Achieving measurable improvements in our development process, streamlining and expediting development through programs like the Special Tenant Improvement (STI) Program and Industrial Tools Installation (ITI) program should be another priority. Leverage city and Redevelopment business assistance programs with State Enterprise Zone Benefits and employment training funds is key to successful implementation of our goal to create an emerging technology center. In our housing programs, monitoring the foreclosure crisis, assisting our low-income residents to retain their homes, eliminating homelessness, and encouraging more affordable housing developments will be critically important to our efforts to preserve high quality neighborhoods throughout San José.

My November 2008 Economic Stimulus Plan outlined a number of economic development initiatives that staff is currently engaged with. This plan focused our efforts towards:

- Developing and creating jobs
- Encouraging private investment in commercial, residential, office and research and development spaces
- Building and retrofitting our infrastructure
- Leveraging existing programs and resources

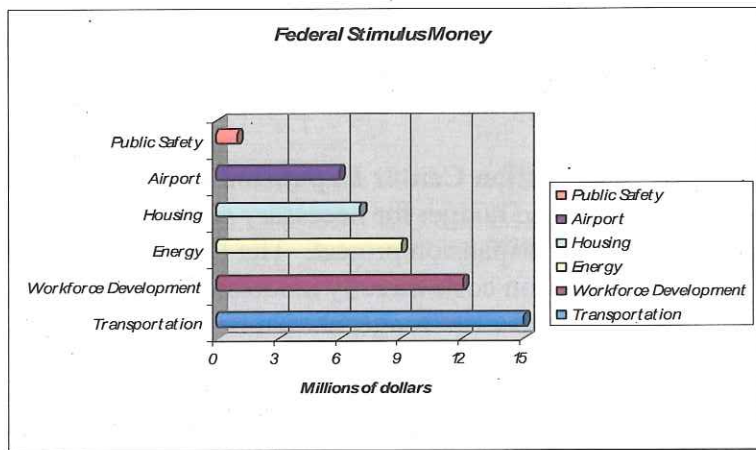
The City Manager and Redevelopment Agency Director are directed to continue to aggressively pursue these efforts.

Federal Stimulus Dollars

Despite the depths of this economic crisis there are many opportunities for San José to partner with the federal government to create jobs and support our residents in impoverished areas of San José. Notably, the American Recovery and Reinvestment Act, better known as the Economic Stimulus Bill, signed by President Obama contains over \$144 billion in aid for state and local governments.

We have identified 31 different projects in San José worth nearly \$850 million that are eligible for federal funding. These are all projects that can be started within six months and could create over 5,000 jobs.

Over \$40 million has already been awarded: \$15 million for transportation projects, \$12 million for workforce development, \$7 million for housing, \$6 million for the San José Airport and \$1 million for the Police Department. In addition, \$98 million will be going to Caltrans and VTA for projects that will benefit San José residents.



We also continue to apply for funding for larger and more complex projects that have a longer time horizon. One such project seeks \$80 million to install 25 miles of recycled water pipes throughout the city. I remain committed to ensuring that San José not only applies for and receives the maximum possible amount of federal aid, but also that we do so in a manner that is transparent and guarantees the money will be used responsibly.

Specific areas of our Community and Economic Development Program that need special mention include:

- a. **Arts Grants Multi-Year Stabilization Fund:** To ensure that a maximum amount of TOT revenue directly supports local arts organizations, monies already allocated to arts endeavors should be transferred to a new city-wide appropriation to be titled "Arts Grants Multi-Year Stabilization Fund." The Arts Stabilization Loan Fund and the Arts Stabilization Flexible Fund will no longer exist. This new line item should include the remaining \$800,000 from the Arts Stabilization Loan Fund, the \$240,000 from the Arts Stabilization Flexible Fund, and the \$75,000 from the Arts Venture Fund.

The appropriation should preserve the Office of Cultural Affairs (OCA) grants allocations at 2008-2009 funding levels to the extent financially feasible. Given that next fiscal year's deficit is projected for an amount similar to 2009-2010, the arts community should view the new appropriation as the only available resource pool beyond TOT for the next five years. Arts organizations facing financial hardships (or possibly bankruptcy) will have to find alternative funding sources to further their operations.

In addition, the City Manager is directed to study: 1) the current financial health of the capital-funded public art program, 2) the amount of time the OCA staff spends working on the program, 3) if maintenance could legally be funded through the current 1% fee on all capital projects, and 4) what effect allocating staffing costs to the 1% fee on all capital projects would have on the current program. This study should be returned to the City Council within 90 days. (BD #34, \$1,115,000)

- b. **Convention Center Expansion and Relocation:** There is \$130,000 in funding in the proposed budget for necessary relocation of staff caused by the proposed Convention Center expansion project. The Redevelopment Agency has committed to funding relocation costs directly associated with the expansion. This \$130,000 allocated in the Proposed City Budget should be used to fund additions outlined in this Message.
- c. **City Manager's Office Downtown Coordinator:** The work of the Downtown Coordinator is focused largely in downtown redevelopment areas which constitute the lion's share of the "Downtown Core Area" as defined in the San José General Plan. Given that the work of this position is economic development driven, it is reasonable for the Redevelopment Agency to cover half of the cost of this \$134,995 position. I direct the Executive Director to allocate \$67,497 for this position, generating \$67,497 in savings to the General Fund. (BD #20, \$67,497)
- d. **Mariachi Festival Marketing:** Now in its 18th year, the San José Mariachi and Mexican Heritage Festival presents a weeklong schedule of music and educational events, drawing over 50,000 people to hear artists like Linda Ronstadt, Mariachi Los Camperos de Nati Cano, Mariachi Cobre, Los Lobos, and Carlos Santana. The Festival is the cornerstone of the Mexican Heritage Corporation's programming and the largest of its type in the nation. I direct the Executive Director to allocate an additional \$50,000 for marketing to replace the current General Fund allocation of \$50,000.

- e. **City Hall Retail:** \$800,000 was previously appropriated to assist with tenant improvements for the ground floor space of City Hall on 4th Street. I recommend this appropriation be used to reinstate additions in this Message.
- f. **Convention and Visitors Bureau Marketing Program:** Included in the Proposed Budget is a \$660,000 reduction in the annual General Fund contribution to the Convention and Visitor's Bureau through additional charges to the Convention and Cultural Affairs Fund. Due to the current constraints in the Convention and Cultural Affairs Fund, an augmentation of \$337,029 in the General Fund is recommended to support the Convention and Visitors Bureau marketing efforts.
- g. **Convention and Cultural Affairs – Fund 536:** The City Manager is directed to allocate \$250,000 in one-time funds to the Convention and Cultural Affairs Fund.
- h. **Economic Incentive Fund:** The City Manager is directed to reduce the Economic Incentive Fund by \$500,000 to fund the additions in this Message.
- i. **Sports Opportunity Fund:** This funding was established to fund and attract sporting events such as Amgen Bicycle Race. I recommend reducing this funding by \$50,000 leaving an ongoing balance of \$100,000. Further, the City Manager is directed to review opportunities for cost saving efficiencies and maximize funds by working with the Sports Authority on these efforts.
- j. **General Purpose Parking Fund Interest Transfer:** The City Manager is directed to use \$490,000 in interest earnings on the parking fund to fund additions in this Message.
- k. **San Jose Stage Company:** The reinstatement of city funding to the San Jose Stage Company supports the intent of the city's role in supporting a diverse and rich arts and cultural scene. This funding of \$55,074 shall come out of the Arts Grants Multi-Year Stabilization Fund created in this Message. (BD #22, \$55,074)
- l. **Citywide Advertising Program:** Many cities across the United States have turned to advertising revenue as a means of boosting their general funds. Some have looked at billboards while others have looked at leasing out advertising space on city property or adding freestanding advertising kiosks throughout downtowns cores. The City Manager is directed to review this recommendation as a possible ongoing funding source for the General Fund and to report back to the Public Safety, Finance and Strategic Support Committee by December 2009. (BD #3)

3. Transportation and Aviation Services

The mission of the Transportation and Aviation City Service Area is "to provide the community with safe, secure, and efficient surface and air transportation systems that support San José's livability and economic vitality."

The achievements in this service area include:

- In 2008, 82 miles of residential streets and 35 miles of arterial and collector streets received a surface seal treatment. In addition, a total of 42 miles of streets received a resurfacing treatment
- The city has secured State Proposition 1B grant revenues for upgrading all city traffic signals (\$15 million) and for pavement maintenance (\$14.6 million)
- Additional federal grants for pavement maintenance (\$15.1 million) are anticipated from the American Recovery and Reinvestment Act of 2009
- Proactive signal retiming and signal controller replacement at over 300 traffic signals is expected to improve commutes on key corridors reducing travel times by 10-15%
- The successful expansion of the School Area Parking Compliance team has resulted in improved parking compliance at targeted schools and improved bicycle and pedestrian safety education
- The remodeling of Terminal A is underway with new concessions, expanded security areas, and improved passenger access.
- The recently opened ticketing lobby in Terminal A has triple the space for customers and 60% more ticketing stations
- The continued build out of the Consolidated Rental Car Garage
- The introduction of five additional gates in the new Airport North Concourse facility

I recommend no changes to this service area.

4. Strategic Support

In the area of Strategic Support, I recommend the following:

- a. **General Fund Structural Deficit Elimination Plan/Beyond Budget Cuts Funding:**
The proposed budget includes \$450,000 for both of these efforts. To fund proposals included in this Message, I recommend the General Fund Structural Deficit Elimination Plan funding be reduced by \$250,000 and the Beyond Budget Cuts funding be reduced from \$100,000 to \$50,000.
- b. **Revised Property Tax Revenue Estimates :** The City Manager's Budget Office develops its projections of revenue based on information from the County Assessor's Office. When the 2009-2010 Proposed Budget was developed, it was assumed that Secured Property Tax receipts would decline 6.5% from the 2008-2009 estimated collection level.

Since the release of the data in April 2009, the Assessor has provided updates on the status of the 2009-2010 property tax roll, with the latest update provided on June 1, 2009. The latest report shows some improvement from the information released in April and it is now anticipated that the Secured Property Tax receipts will drop by no more than 4.0% in 2009-2010 rather than the 6.5% decline assumed in the 2009-2010 Proposed Budget.

Although still a significant decline, the lower drop in receipts is due, in part, to the Assessor's Office continued evaluation of property reassessments resulting from the current year drop in property values (Proposition 8 adjustments).

While the Property Tax roll will not be finalized until July 1, 2009, based on this updated information from the Assessor, Secured Property Tax receipts are expected to total \$183.57 million, up \$4.78 million from the estimate of \$178.78 million in the 2009-2010 Proposed Budget. The City Manager is directed to use this additional ongoing funding for reinstatements in this message. (MBA #45, \$4,781,000)

- c. **Additional Redevelopment Agency Support of General Fund:** Budget Document #20 recommends funding \$5 million of the suggested \$11 million from Redevelopment Agency funding. This is beyond the \$2 million support previously directed in the March Budget Message. Funding at this level, even one-time, could impact the Agency's ability to fund critical projects approved by the Redevelopment Agency Board and there are legal restrictions on the use of Redevelopment funds for city services. This is very difficult to predict since the Agency will not be releasing a budget until August 31.

Because the State could further impact our General Fund and Redevelopment Agency, I recommend the Redevelopment Agency Executive Director, City Manager, and City Attorney agendaize a discussion during the Redevelopment Agency Budget Hearings to discuss additional support to the General Fund and legal analysis on many of the issues related to RDA support for the General Fund.

- c. **Filled Position Elimination Reserve:** The 2009-2010 Proposed Budget establishes a reserve to address the potential impacts of eliminating filled positions in the budget. This includes funding for vacation, compensatory time payouts, and higher than anticipated expenditures that may occur from employee layoffs or displacements. The City Manager is directed to reduce this funding by \$150,000, as a result of position reinstatements contained in this Message.
- d. **Encumbrance Review:** Budget Document #20 recommends liquidation of prior year encumbrances as a funding source for programs. The Finance Department is undergoing a pilot program to evaluate and analyze the city's encumbrance balances and ensure timely liquidation of encumbrances. This effort has resulted in the liquidation of almost \$4.3 million in prior year encumbrances through May 8, 2009. Additional liquidations are expected by year-end and are needed to meet the 2008-2009 Ending Fund Balance/2009-2010 Beginning Fund Balance assumed in the 2009-2010 Proposed Budget. The City Manager is directed to continue these proactive efforts for liquidating encumbrances.

- e. **City Contracts and Leases:** The City Manager is directed to review existing contracts up for renewal, scrutinize the amount being paid for the service or product, and determine if better pricing and more favorable terms may be available. As contracts come forward for City Council consideration, staff should incorporate language regarding review of the contracts in light of the economic conditions.
- f. **Review Litigation:** The City Attorney is directed to review lost litigation and determine what can be done to avoid losses in the future. Recommendations should be provided at Closed Session. The City Attorney is also directed to review open litigation that requires extensive resources for City Council consideration, and whether to continue given the balance of risk and resources. (BD #20)
- g. **Opportunities within the Office of Economic Development, the Convention and Visitors Bureau, the Sports Authority and the Arena Authority:** The City Manager is directed to review services that might overlap between these agencies and report on opportunities for efficiencies, if any, that may generate savings by mid-year.
- h. **Sunshine Reforms Retention and Renewal Project:** One-time funding of \$325,000 is in the General Fund to meet data storage needs that will be required for the new retention and retrieval rules resulting from Sunshine Ordinance and policies. Given our current budget situation, the City Manager is directed to liquidate this funding to fund other items in this Message.
- i. **Senior Management Home Loan Program:** The Senior Management Home Loan Program provides low interest loans as recruitment incentives. I recommend the City Manager reduce this appropriation by \$500,000.
- j. **City Council Initiated Neighborhood Improvement Reserve Fund/Essential Services Preservation Fund:** I recommend using \$1 million from the Neighborhood Improvement Preservation Fund and \$500,000 from the Essential Services Preservation Fund to fund the additions in this Message.
- k. **Neighborhood Strip Retail Revitalization Fund:** This Fund has remained unused for two years and is used to revitalize retail strip centers. I recommend using \$66,705 to fund the additions in this Message.
- l. **Councilmember Transition Funds:** The purpose of this fund is to provide funding for elected officials when they come in to office. In Fiscal Year 2009-2010, we will not have any new Councilmembers elected. Therefore, I recommend allocating \$36,000 from this fund to the General Fund to support additions identified in this Message.
- m. **Budget Policy Changes:** To implement a recommendation from the General Fund Structural Deficit Elimination Plan and to provide more flexibility in providing funding to our unmet/deferred infrastructure needs, I recommend changes to the following Budget Policies:

- A) *General Fund Ending Fund Balance Distribution (Budget Policy A.4 – Fund Balance)*: Currently, 50% of the General Fund ending balance is dedicated to deferred street maintenance and repair projects. It is recommended that this use be expanded to include the backlog of other unmet/deferred infrastructure and maintenance needs in the areas of: 1) transportation; 2) technology infrastructure and software upgrades; 3) fleet replacement; and 4) building facilities at the recommendation of the City Manager and approval by the City Council.
- B) *Sale of Surplus Property Proceeds Distribution (Budget Policy A.3d – Economic Uncertainty Reserve)*: Currently, proceeds from the sale of surplus property are allocated to the Economic Uncertainty Reserve, excluding those that have been designated for specific project funding as of October 1, 2004. It is recommended that the potential uses of the sale proceeds be expanded to include the backlog of unmet/deferred infrastructure and maintenance needs, asset management program costs, and to pay down any General Fund debt at the recommendation of the City Manager and approval by the City Council.

5. Environmental and Utility Services

As mentioned in the March 9, 2009 Green Vision Annual Report, the city is making great strides in achieving its ten environmental goals:

1. **Create 25,000 Clean Tech jobs as the World Center of Clean Tech Innovation**
3,250 Clean Tech jobs created by San José companies, including several manufacturing facilities
2. **Reduce per capita energy use by 50 percent**
Energy efficiency savings of \$435,000 in 2008
3. **Receive 100 percent of our electrical power from clean renewable sources**
Facilitated adoption of more than 5MW of solar across the community. Passage of two key pieces of legislation: State passage of AB 2466 to allow municipal facilities get up to 1MW of credit for excess energy generation and Federal renewal of the renewable energy investment tax credit
4. **Build or retrofit 50 million square feet of green buildings**
Adoption of Private Sector Green Building Policy for new construction; added 330,000 square feet of certified green buildings
5. **Divert 100 percent of the waste from our landfill and convert waste to energy**
Improved recycling at city facilities, including sorting all waste at an offsite facility; increased municipal recycling for all operations, including the Airport, Convention Center, libraries, and City Hall, to 75% of total disposal

6. Recycle or beneficially reuse 100 percent of our wastewater (100 million gallons per day)

Increased average daily use of Recycled Water by almost 1 million gallons per day

7. Adopt a General Plan with measurable standards for sustainable development

Conducted extensive stakeholder outreach; General Plan Task Force made significant progress towards recommending sustainable and measurable goals

8. Ensure that 100 percent of public fleet vehicles run on alternative fuels

Transitioned to B20 biodiesel for the entire diesel fleet

9. Plant 100,000 new trees and replace 100 percent of our streetlights with smart, energy neutral lighting

Adopted street lighting policy to ensure all new lights are smart energy efficient lights

10. Create 100 miles of interconnected trails

Expanded trail and on-street bike lanes by eight miles

The accomplishments of the Green Vision are impressive. This year, with the passage of the American Recovery and Reinvestment Act, we now have an unprecedented opportunity to make significant progress towards the energy objectives set out in the Green Vision. The San José Energy Plan allows us to take advantage of this opportunity.

Adopted by City Council on June 2, 2009, the San José Energy Plan is a comprehensive strategy to deploy renewable energy, reduce energy consumption through efficiency and smart microgrid technology, and design a program for residential retrofits and green workforce development funded by the American Recovery and Reinvestment Act. This plan consists of three main points:

1. Renewable Energy

- A. Install 50MW of renewable electricity on city-owned lands for municipal use
- B. Develop a Request for Qualifications (RFQ) process to select a Solar Contractor/Vendor to produce an installation and financing plan and schedule

2. Energy Efficiency

- A. Perform energy audits and solar assessments on all city facilities
- B. Use funds from the Energy Efficiency and Conservation Block Grants (EECBG) to begin a program to retrofit all city facilities to reduce energy consumption
- C. Extend the City Building Energy Project Program (CBEPP) revolving fund from 1 year to 2 years
- D. Use EECBG funds to install additional smart street lights and apply the dollar savings from those lights to expand the pilot program across the city

3. Community Involvement

- A. Establish a voluntary city-wide energy efficiency and solar assessment district to allow all San José residents the opportunity to participate in our Green Vision and receive proceeds from the Federal Stimulus Package
- B. Coordinate workforce training programs with universities, community colleges, job training organizations, and labor unions to ensure we have trained and qualified workers ready to meet the challenge of retrofitting our city facilities, residences, and commercial buildings

To continue our environmental leadership, I recommend the following:

- a. **Neighborhood Cleanups:** Neighborhood cleanups are one of the most common requests for service among San José residents. The City Manager is directed to explore different service delivery models for this program and ways to reduce costs with the goal of increasing the number of cleanups in the city.

6. General Fund Deficit Elimination Plan

At the direction of the City Council, the City Manager released the General Fund Structural Deficit Elimination Plan (GFSDEP) in November 2008. After over a year in development and extensive stakeholder outreach, a total of 13 strategies were identified to be implemented to eliminate the General Fund structural deficit over a five-year period. The strategies were contained in three categories: Cost Savings Strategies, Revenue Strategies, and Service Reductions/Eliminations.

The GFSDEP was updated as part of the 2009-2010 City Manager's Budget Request & 2010-2014 Five-Year Forecast and Revenue Projections for the General Fund and Capital Improvement Program document that was completed in February 2009. Since that time, due to potential pension plan contribution increases in future years and bad economic news, the projected five-year deficit forecast has ballooned to \$270.5 million. Including the City's unmet/deferred maintenance needs, the structural deficit totals \$300 million by 2013-2014.

The City Manager is directed to continue further strategy development in the areas of:

- Cost Savings
 - Including optimization and service delivery model reviews
- Revenues
 - Including further stakeholder outreach and polling for revenue measures
- Layoff Alternatives
 - Including solutions to avoid layoffs and service reductions

The Plan will continue to evolve as strategies are fully developed and others are eliminated for various reasons. In addition, the Plan is dependent on the current city revenue and expenditure projections. The City Manager should continue to update the Elimination Plan as part of the February Forecast release until the General Fund structural budget deficit is closed.

7. Redevelopment Agency

The Redevelopment Agency continues to be a catalyst that stimulates:

- Economic Growth
- Job Creation
- Affordable Housing
- Neighborhood Improvements

The Agency's ability to operate depends on tax increment revenues from its project area assessments reported by the County Assessor in July 2009. In light of the Agency's need to fund its operations until the tax increment revenue base is known in July, the Council previously approved my recommendation to allow the Agency to release the Fiscal Year 2009-2010 Proposed Operating and Capital Budget and the proposed Fiscal year 2009-2010 Capital/Program Budget and Fiscal Year 2010-2012 Capital Improvement Program on August 31, 2009.

8. Re-Budget Proposals

I recommend the following re-budgets subject to final verification of accounts by the City Clerk's Office for Mayor and Council Offices.

	Office Rebudget	Constituent Outreach Rebudget
Mayor's Office	\$753,000	\$50,000
Council General	\$400,000	\$0
District 1	\$0	\$9,539
District 2	\$157,912	\$7,811
District 3	\$20,063	\$12,489
District 4	\$99,528	\$20,000
District 5	\$63,114	\$19,149
District 6	\$48,757	\$14,755
District 7	\$42,393	\$20,000
District 8	\$39,818	\$4,654
District 9	\$120,385	\$20,000
District 10	\$113,360	\$18,563

CONCLUSION

This Budget Message presents us choices. We can lead San José into a healthy fiscal state rather than maintain business as usual. Making tough choices isn't easy, but neglecting to provide leadership is far worse. Through the community based budgeting process, we know which services residents truly value. Together, we can implement community priorities, maintain core services, stimulate the economy, and reduce layoffs.

We should be proud of our many accomplishments over the past few years to make San José a great place to live, work and raise a family. San José is a community that our residents are proud to call home. Despite the current economic challenges facing the region, state and nation, I am confident we will continue to find solutions to achieve our community's goals and provide the quality services that our residents deserve.

COORDINATION

This memorandum has been coordinated with the City Manager, City Attorney, and the Redevelopment Agency Executive Director.

Attachment 1
General Fund Adjustments - Source of Funds

Source of Funds	Ongoing	One-time
Pending Employee Concessions	\$756,951	
CAMP \$354,068		
OE3 \$402,883		
Neighborhood Improvement Reserve Fund		\$1,000,000
Essential Services Preservation Fund		\$500,000
City Hall Retail		\$800,000
Revised Property Tax Revenue Estimates	\$4,781,000	
General Fund Structural Deficit Elimination Plan Funding Reduction		\$250,000
Beyond Budget Cuts Funding		\$50,000
Police Management Consolidation		\$125,000
Police Public Information Office Consolidation	\$154,509	
Downtown Nightlife Cost-Sharing	\$131,000	
Convention Center Expansion and Relocation		\$130,000
Economic Incentive Fund		\$500,000
PRNS Advertising for Smoke Free Parks	\$50,000	
Police Take Home Vehicles	\$100,000	
Filled Position Elimination Reserve		\$150,000
Sports Opportunity Fund Reduction	\$50,000	
Sunshine Reforms Renewal and Retention Project		\$325,000
General Purpose Parking Interest Transfer		\$490,000
City Manager's Office Downtown Coordinator	\$67,497	
Mariachi Festival Marketing		\$50,000
Senior Management Home Loan Program		\$500,000
Councilmember Transition Funds		\$36,000
Neighborhood Strip Retail Revitalization		\$66,705
Sub-Total	\$6,090,957	\$4,972,705
Total	\$11,063,662	

Attachment 1
General Fund Adjustments - Use of Funds

Use of Funds	Ongoing	One-time
Fire Station 30	\$2,176,805	
Fire Station 33		\$1,718,000
San José Municipal Rose Garden		\$126,907
Distinctive Neighborhoods Program		\$30,000
Park Rangers (Includes Support from OE3 Concessions \$402,883)	\$1,429,783	
Police Horse Mounted Unit		\$739,972
Police Traffic Enforcement Unit	\$790,810	
Satellite and Neighborhood Community Centers		\$671,381
Restoration of Services to Branch Libraries		\$1,199,036
Dr. Martin Luther King, Jr. Library		\$186,392
Convention and Visitors Bureau Marketing Program		\$337,029
Convention and Cultural Affairs – Fund 536		\$250,000
Police Patrol Unit Staffing	\$1,097,788	
Public Intoxication Task Force		\$100,000
Community Based Organizations		\$209,759
Subtotal 1	\$5,495,186	\$5,568,476
Total \$11,063,662		
Possible additions to be funded through employee concessions		
Remaining Library Hours	\$837,815	
Library System-wide Support Staffing	\$192,451	
City Hall Custodial Services Staffing	\$491,333	
General Code Enforcement Workers	\$201,535	
Traffic Calming Program Staff	\$257,491	
Help Desk Staffing	\$219,773	
Risk Administration Administrative Staffing	\$190,818	
Workers Compensation Claims Staffing	\$201,083	
Police Records Staffing	\$360,789	
Police Activities League Maintenance	\$72,162	
Clerks Contract Support Staffing	\$200,170	
Contract Compliance Specialist Position	\$88,219	
Subtotal 2	\$3,313,639	
Total \$14,377,301		

Attachment II
Community Budget Meetings

District 1 - Archbishop Mitty (05/11/2009)

- *Where did list of cuts come from? Directions & priorities from council to department directors March message gives target reductions*
- *What are we going to do to get out of the infrastructure backlog? IT infrastructure problems too*
- *What is the likelihood of changing the mindset of the council – it's going to take a long time – What should we get behind right now? The message has to go to all the council members*
- *Property tax & sales tax – how much would the city have to collect? Council has the power to designate land use. Encourage businesses to do business in San Jose (signs on Stevens Creek). Provide businesses with tools*
- *Why does the City Manager's office have the responsibility of doing the budget of the employee's they manage? Discussion centered around why the Mayor does not have more leadership in this area*
- *Why can't residents be taxed for specific purposes? (2/3 vote of the people needed) Residents at the meeting were willing to consider special tax as long as they went to specific core city services*
- *Why aren't we looking at fines being issued to breaks in code enforcement? (#1 goal is to come into compliance)*
- *The tech world uses computer modeling for budget cuts and volunteers to offset costs on services*
- *Doesn't traffic enforcement produce revenue? No, goes to county & state – parking tickets do create revenue*
- *If mounted unit is reassigned doesn't the cost of the police offices remain? No, you take the positions off the books*
- *Why can't employees make contributions to retirements – should we have a two-tiered retirement system? federal government did that a few years ago*
- *Why can't you be king for a day, Pete give us a list of priorities?*
- *Isn't it good to go through a 0% budget-based exercise?*
- *Do we have to keep the facilities opened that are slated to open? (or re-open)*

District 2 - Edenvale Library (05/09/2009)

- One community member expressed her concern for the proposed cuts within the police and fire departments. She felt that public safety should not be targeted. She also shared her concern for the elimination of City employees in critical departments, such as the Planning Department.
- Preventing libraries from closing more hours was a shared sentiment amongst many community members. One community member talked about the important role libraries play for individuals who are job searching. She emphasized how services within libraries are widely used, and during all days of the week. The community member also recommended reducing City staff at libraries, and utilizing more volunteers to keep the libraries open regular hours.
- Another community member inquired whether or not the budget staff reviewed budget cuts that affected possible revenue that could have been generated by services being cut. An example was explained to demonstrate her point. A bar in Santana Row wanted the City to approve extended business hours, but Chief Davis turned the proposal down because of an

Attachment II
Community Budget Meetings

inadequate number of officers available for patrolling the beat. The community member feels the extended hours could have helped bring revenue to San José, and decisions like these should be considered for the budget. The same community member expressed that she did not want the 9 swing shift officer positions cut due to staffing shortages. But it was clarified by City staff that these 9 positions are currently vacant.

- Someone shared his concern in regards to the elimination of 6 community centers (which was also an overall concern amongst the community members). He inquired whether all staffing was to be eliminated from these 6 centers. Also mentioned was his concern for public safety. The community member asked whether 911 dispatchers were to be eliminated, because response time with phone calls is too slow to begin with.
- Another community member shared two concerns: The reduction of library hours and funding cuts for Level 1 Homework Centers. The community member explained how libraries help keep many kids off the streets, potentially decreasing juvenile criminal activity. He shares that libraries contribute to youth/gang intervention. If these community centers are taken away, then these kids who had no direction will cause problems. Second, the community member proposed the City strongly consider shared funding for Level 1 Homework Centers, through partnerships with non-profits.
- An idea was suggested in regards to storm water funds going towards parks and park rangers. The community member stated that since park rangers, in one way or another, affect by the storm water, they should be funded through the storm water funds. An example was given: Alum Park rangers do a lot to protect storm water, thus, they should be funded.
- One community member inquired how cuts were determined for full time and part time staffing positions. He was curious what the numbers of positions were for both part time and full time cuts.
- A police officer was asking who was involved in deciding the proposed cuts for SJPd (a committee, the Chief, etc...). He felt as though SJPd had little say on what should or should not be cut.

District 3 - City Hall (05/20/2009)

- HMU through public/private partnerships? Public/private partnerships too late
 - Sam: need private companies to run community centers
 - City needs money to keep lights on and maintain
- Why not contract out services?
- Personal services 69%
- Unions and wage freezes = how much and does what?
 - ND: \$12-13M in increases in the budget avoid some layoffs
- What would employees need to do for no reduction in services?
 - ND: 1% reduction = \$5.5M in savings
 - ND: need 14% to close gap
- Why not more opportunities for revenue generation? Economy wasn't bad for 5 years- how did we get here?
- Need to balance wages- a lot more over 6 figures
- Employees need to take a hit
- Residents concerned about cuts to Park Rangers, Libraries and Pools
- Where are kids going to go?

Attachment II
Community Budget Meetings

- Biggest cuts for people with highest salaries
- We have to make cuts- community leaders are supposed to help say what to cut
- Change pension plans
- Perform audit for all city positions
- More RDA money- money for street "restoration"
- Fire Station 30: charge county for Fire Department time
- Community Centers

District 4 - Berryessa Community Center (April 30, 2009)

- All City and Federal employees should take a 5% decrease in pay (Reduction FY 2009-2010)
- Talk to high schools, middle schools and local colleges to encourage community service activities that help the city instead of special interests like March of Dimes. Focus on graffiti, creek clean-up, mentoring programs, etc. (Reduction: future years)
- Revitalize run down areas of San Jose to draw revenues back into the city. Currently many people go to Milpitas to shop and eat.
- Security alarm. Sliding scale for false alarms (Revenue)
- Establish greater volunteer force. Create a city synergy and work on the community pride that already exists. Adopt a block, community service hours at schools. (Reduction: future years)
- Go to labor unions and ask them to take a shared sacrifice that non union employees and departments have accepted. (Reduction: FY 2009-2010)
- Group A: Control personnel costs
- Group B: Public Safety Priority
- Group C: Agree on ¼ increase in sales tax (be careful in reducing services)
- Group D: Personnel- Reduce fire fighters sick leave payouts. Volunteer- Promote City employees volunteer programs (more aggressive coordination with public). Reductions of services and deferred maintenance/ street reconstruction, \$2.7M from stimulus for street maintenance. High schools- Don't have officers on campus. RDA- Contracts for private sector loans and debts are too high

District 4 - Alviso Community Center (05/06/2009)

- Senior Center hours in Alviso should be increased
- Nutrition Program is critical for Seniors and residents of Alviso
- Crime Prevention
- Concerned for the impact city wide if the Park Rangers were to be cut
- Community Center Services in Alviso should be equitable to those at Berryessa and City Wide.
- Concerned about any cuts to public safety because residents feel the impact on Alviso would be worse.

District 5 - Mexican Heritage Plaza (05/14/2009)

- A large turn out of Seniors and residents concerned about the potential closure of the Hank Lopez Community Center
- Residents concerned and felt that they were being ignored by the department because the center seems to be up for closure each year even knowing that it is essential core service and

Attachment II Community Budget Meetings

<p>priority for the district</p> <ul style="list-style-type: none"> • Concerned expressed about the funding to San Pedro Square commenting that the money could have been used for other services such as libraries and community centers • Residents questioned the process of the 6 Community Centers selected in the proposed budget to be closed by the City of San José • Resident's perception was that most of the community centers were predominantly within underserved and Latino communities. • Residents expressed concerns that the 6 community centers proposed for closure were in identified 'Hot Spot' areas and more problems would follow the closures.
District 6 - Willow Senior Center (March 12, 2009)
<ul style="list-style-type: none"> • City needs to change employee policies and compensation (including sick leave payouts and pensions) before cutting services. • Wage freeze for the next three years. • Freeze Step and Merit increases. • 5 percent pay reduction for all 2,663 employees that make over \$100K. • 2 percent pay reduction for all employees making under \$100K (includes council and staff). • Make changes to sick leave and vacation payout. • Raise fees on card rooms but allow them nine extra tables which will bring the city \$5.5M every year on top of the existing \$13M. (Bob Brownstein, a union leader and Pat Dando, the President of the Chamber agree on this.) • In future years we maintain wage freezes. • Sell the Hayes Mansion to cut the \$4M we lose every year. • Retain industrial land for job growth and slow down housing growth. • Raise utility tax 1 percent on electricity, gas and water only. This would bring \$11.43M a year that would go to police only. • Spend 70 percent of new revenue on new officers and the balance on non-sworn police employees and technology so more police officers can be out on the street versus behind a desk. • We should do a \$100M bond to pay for street repairs only, since we have a deferred backlog on maintenance of \$457M, and the longer we wait it will cost us even more to fix streets since we will go from repaving to rebuilding.
District 7 - OB Whaley Elementary (April 15, 2009)
<ul style="list-style-type: none"> • Federal funding- capped at \$4M • Fire Station 33 closing- Communication Hill paid for everything but the manpower • HNMF money-don't shift funding (it's leveraged) • Outsource community centers. North side saves a lot of money.
District 8 - Leyva Middle School (April 29, 2009)
<ul style="list-style-type: none"> • Increase business license fee from \$15/yr to \$170/yr • Decrease retirement and pension plans • Having a doctor give out 1 hour of free consultations • Storm sewer service fee • Eliminate the hiring of consultants

Attachment II
Community Budget Meetings

- Concerned about layoffs
- Solicit 1 hour of volunteer time from all professionals in our communities
- Increase public bathroom use fee to \$2
- Increase alcohol license fee by 1%
- Reduce the health and pension benefits of Police, Fire and City employees
- Increase the health co-pays and adjust the eligibility service years
- Re-negotiate union contracts
- Implement smoking fee
- Eliminate overtime pay unless approved

District 9 - Cambrian Branch Library (05/07/2009)

- Questions were raised about Happy Hollow staffing levels, and should that take priority over libraries and community centers.
- Questions raised over what does it mean to eliminate a position.
- Concerns expressed over the proposal for Park Ranger cut and wanted to know the plan to keep parks safe.
- Concerns expressed that the subsidies to the golf courses were too high. Recommendation to review the existing green fees set on the golf courses.
- Concerns on why the City of San José is funding outreach for the Mariachi Festival, and not other ethnic festivals.
- Like the LED investment but want more energy efficiency measures.
- Recommendation that the Mayor and Council cut to their budgets, or their salaries.
- Question on analyst in the Clerk's Office and existing work load.
- Concerns about the status of Fire Station #37 and the deferral of the project (stalled or never happen).
- Are we aggressively pursuing stimulus money that is earmarked for Fire Stations? (DCM – yes).
- What are the police take-home vehicles? (DCM – unmarked Crown Victorias- for Captain's on call).
- Are we raising revenue, and maximizing profit centers in San Jose operations/ and tapping private sector companies in San Jose? Taxes? (DCM- Thanked community for support of Measure J&K; and pointed out that the discussion on Internet Sales Tax is starting to ramp up).
- Is the Redevelopment Agency the right size? Can we move over more than \$2M? Hard to see the total picture without the RDA budget side-by-side? (DCM- talked about limitation on spending RDA money for General Fund operating expenses; and acknowledged there is often tension between RDA and the City around the appropriate levels to transfer in trying economic times).
- How were the priorities set for this Proposed Budget? (DCM –talked about phone survey; community budget forum; and Mayor's March budget message).
- What if all workers took a 5.5% reduction their salaries to save jobs and services? (Discussion about the ten bargaining units and the ongoing conversation about taking 0% to assist in closing the budget shortfall).
- There was broad support for the branch library system registered throughout the night (with

Attachment II
Community Budget Meetings

many Friends of the Library group in attendance).

- An acknowledgement that Public Safety was a significant portion of the budget.
- There was a comment about community building, and that the Mayor and Council should look to strike a balance in adopting a budget that recognizes the importance of parks, community centers and libraries.

District 10 - Vista Park Community Room (April 28, 2009)

- Why make up pension plan losses?
- 20% housing fund?
- Development funds?
- Compare budget to 40 years ago. Where did the tax money go to then?
- Fix the streets
- Pension plan needs to be re-defined or we will never have enough money
- How much are in reserves?
- Change the template or the City will never get out of debt
- Employees pay for retirement medical benefits
- Of approximately 6600 city employees, nearly 3000 of them make over \$100,000 per year. Police & Fire personnel routinely make \$120,000-160,000/yr. The City's projected pension obligation is \$1.3 billion in the hole. Taxpayers, many of whom have lost jobs or had their salaries frozen or cut, as well as retirement savings erased are on the hook for all of it. Overall salaries and benefits for city employees are far more generous than those received by private sector workers--the same people that pay the our taxes to support the fiscal house of cards. Someone must stand up to the special interests that are squeezing the city to pay compensation that far outstrips the ability of taxpayers to pay. What can be done?
- It's seems like the City's actual budget amount goes up pretty much every year. Are the so-called "budget cuts" real or merely reductions in proposed amounts put forth by optimistic department heads as each year's budget process begins? (Similar to position cuts).
- Why does the City provide benefits-health, health after retirement, generous payment for life etc.-which the private sector, e.g. high-tech, stopped years ago?
- Does the City have any plans to help homeowners "green" their homes? Such as loans repayable from savings accrued through efficient use of energy and water.
- Has the City identified the items in both revenue and costs that might be worth reviewing to generate income or eliminate costs that might be redundant?
- Move admin functions to a low cost area. This is done in private sector all the time.
- What was the City head count as of Nov 2001 at time of the freeze and numbers now?
- How/when do we focus on the rest of the budget? Capital fund-35% Special fund-32%
- Why not force employees to take 10% or 20% pay cuts as private industry does?
- Eliminate automatic "step increases" based on time on the job.
- Eliminate retirement benefits. Let employees pay their own retirement with 401(k)'s.
- Cuts to middle management like outside. Empower employees by removing red tape.
- Across the board cut 3% to 100k plus and 1% to 99k and below. How realistic of an option is this?
- Employee payouts are excessive. Union negotiations poor.
- Replace defined benefit pension with defined contribution fund. Please don't tell us this can't be done because of union contracts. City leaders need to show leadership in this area to

Attachment II

Community Budget Meetings

convince union they must take cuts.

- Don't build more community centers without providing funds for operating expenses.
- Layoff on basis of performance instead of seniority. Again unions will oppose and win this battle no doubt.
- Revenues will continue to fall yet employee cuts are fixed. You offer us two choices: raise revenue or cut services.
- Need to cut cost of services. This means employee salaries and retiree benefits cut absolutely not a cut in rate of increase.
- Unions need to face reality. Otherwise people will move with their feet.
- What about filing bankruptcy and allow the court to cancel the outlandish retirements, that is, why can an employee retire at age 50 and receive 70-90% of their top salary for life?
- How are public schools funded and programs funded?
- You mention asking the departments to look at these things. Are they really qualified to do this? Or should someone else do it?
- There are a lot of highly paid administrators in all governments. Is anyone proposing a serious look at trimming admin first before cutting these who serve our needs at the front line? What is the city's management ratio? If we can't get rid of managers, can we give them shovels/brooms and put them to work?
- What are the real cuts?
- Cut administrators- save front-line people who provide services (management ratio)
- # of questions on benefits:
 - Show leadership and don't hide behind unions
 - Lay-offs by merit- not seniority
 - No more community centers without operating funds
 - Early retirement?
- Is school funding affected?
- Are department heads qualified to look at operations?
- Increase contracting out
- Across the board wage decreases
- Take away guaranteed step increases
- Private sector and public sector wages should be comparable
- What percentage of loss have we had in benefits? (25%)